

## Gold: Rise of the “Barbarous Relic”

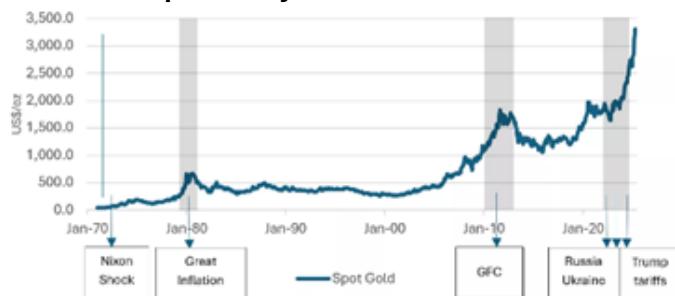
In 1924, John Maynard Keynes, a famous British economist wrote in his book “A Tract on Monetary Reform” that gold is a barbarous relic and argued that the gold standard was an outdated and impractical system that hindered economic stability and flexibility, especially for 20th-century democracies.

Warren Buffet, considered a global high priest of fundamental or value investing, once said that gold is an unproductive asset as it doesn’t pay any dividends or interest.

For decades, the investment community had relegated gold to a corner, completely ignoring it as an asset class. In India (and may be other Asian countries, where gold has held a special place since time immemorial), investment advisors suggested a maximum 5% allocation to gold.

And yet, as of September 2025, gold price has hit multiple life time highs triggering a wave of changing perspectives on gold as an asset class:

**Chart: Gold price 54-year CAGR at 8.8%**



The chart on the left sourced from the Gold.org (World Gold Council), tells a story of how gold as an asset class that completely ignored between 1980 and 2000 has risen like a phoenix at each major disruption over last two decades.

This surge in price of gold has stunned the investment community who feel left out and have become advocates of gold:

In a recent interview, Morgan Stanley CIO, Mike Wilson has suggested that gold allocation in investor portfolio should be 20% up from 0%!. Similarly, Jeffrey Gundlach, CEO of DoubleLine money manager and one world’s foremost expert on bonds, has stated that holding 25% of portfolio in gold, is not excessive. Nicolas Taleb, the author of several best sellers like *Antifragile* and *Black Swan*, in a recent Bloomberg interview suggested that gold is a monetary asset.

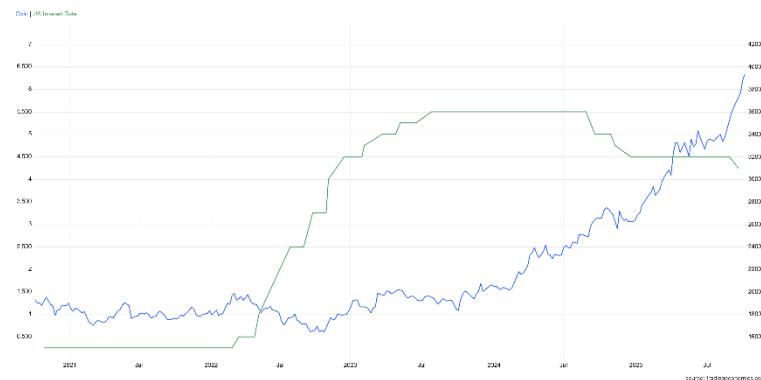
All of these views were unheard of till a year ago from global investment experts. So what has changed?

While headlines often point to complex geopolitical games, the truth is that a powerful confluence of factors: from Main Street inflation fears and a desperate search for a safe haven, to a quiet revolution in the physical market and unprecedented sovereign buying, is fuelling this historic run. This analysis will dive deep into each of these drivers, separating the signal from the noise to determine if this rally is sustainable and what it means for your portfolio in the years to come.

## The Great Decoupling: Why This Rally is Fundamentally Different

The first and most critical point every investor must understand is that the old rules for valuing gold are irrevocably broken. For decades, Wall Street and the global investment community operated on an iron-clad playbook: the price of gold moved inversely to real interest rates. The logic was simple: as a non-yielding asset, gold became less attractive when investors could earn a positive, risk-free return from government bonds after accounting for inflation (real yield). This "opportunity cost" was the primary variable in almost every institutional model for the gold price.

That playbook, which held true for generations, has been utterly obliterated.



Beginning in 2022, the U.S. Federal Reserve and other central banks unleashed one of the most aggressive rate-hiking cycles in modern history. Real interest rates, as measured by the 10-Year TIPS yield, rocketed from deep negative territory to their highest positive levels in over 15 years. According to the old models, this should have

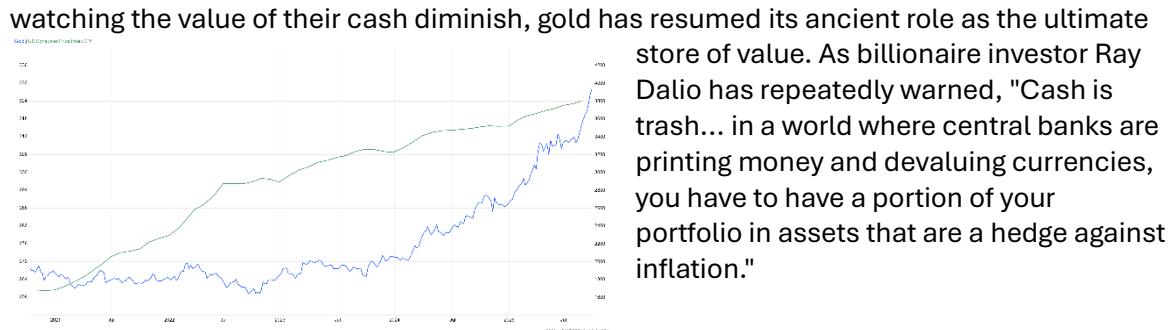
triggered a catastrophic collapse in the gold price. The exact opposite happened. Gold absorbed the immense pressure from Western funds who were dutifully following the old playbook, and then it charged to its highest prices in history.

This historic decoupling is the smoking gun—the definitive quantitative proof that the gold market's centre of gravity has shifted. It tells us that a new, dominant force has entered the market, one whose motives completely transcend interest rate calculations. As macro strategist Luke Gromen of FFTT, LLC puts it, *"Gold is no longer trading as a financial asset. It is trading as a monetary asset. The price is no longer being set by leveraged speculators in the West, but by unleveraged, long-term sovereign buyers in the East."* This is not a temporary anomaly; it is the new, enduring reality, and it signals that the drivers of price are now more structural and profound than ever before.

## The Confluence of Drivers: More Than Just One Story

This new paradigm is not built on a single pillar, but on a powerful foundation of several reinforcing trends. These drivers originate from every level of the global economy, from the household to the sovereign state, creating a uniquely robust bull market.

- **The Inflation Hedge Re-Awakens:** The memory of the inflationary wave of 2021-2023 is deeply seared into the minds of consumers and investors. They witnessed firsthand how rapidly the purchasing power of their savings could be eroded by currency debasement. This was the direct consequence of the unprecedented monetary and fiscal stimulus unleashed since 2020, which saw the global money supply expand at a historic rate. For investors



- **A Haven in a Volatile World:** Beyond inflation, the global economic and market landscape is fraught with uncertainty. With persistent recession fears, equity market volatility, and the memory of the 2023 regional banking crisis still fresh, investors are increasingly seeking a genuine safe harbour. Gold's key portfolio benefit is its historically low correlation to stocks and bonds. It acts as a form of financial insurance, preserving wealth during times of economic turmoil. The demand for this insurance has rarely been higher, as investors seek a counterbalance to a portfolio dominated by credit-based assets.
- **Relentless Physical Demand from the East:** Beneath the headline price, a constant, powerful current of physical demand from Asia provides a solid floor for the market. In countries like China and India, buying physical gold is not just an investment, but a deep-seated cultural tradition for personal savings, weddings, and festivals. This consistent consumer demand, which saw investment in gold bars and coins soar by 21% year-over-year to 243 tonnes in Q2 2025 alone, creates a steady offtake of physical metal that is far less sensitive to price fluctuations than Western investment flows.

### A Market Divided: The Great Physical Drain from West to East

This strong physical demand has created a fascinating and revealing tug-of-war in the global marketplace. While some Western institutional funds have been selling paper claims on gold, a torrent of physical buying has more than compensated for it, exposing a deep fracture between the two markets.

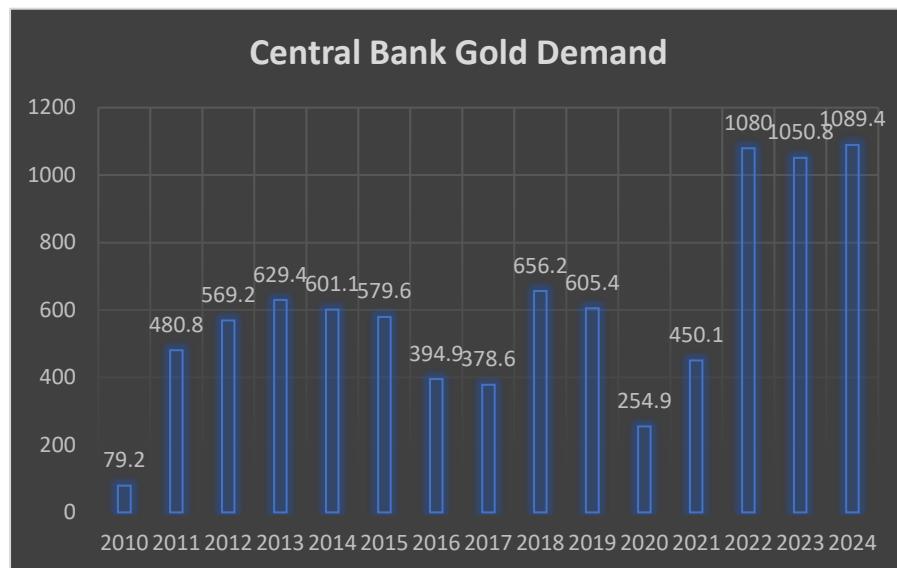
The evidence is clear: since mid-2022, Western-based gold-backed ETFs have seen net outflows exceeding 600 tonnes, representing tens of billions of dollars in institutional selling. Yet, the price has soared. How? Because the physical market is telling a completely different story. The premium required to buy physical gold on the Shanghai Gold Exchange (SGE) has frequently surged to sustained highs of \$50-\$120 over the London spot price. This SGE premium is not a niche detail; it is the market screaming that demand for real, deliverable metal in the world's largest physical market is outstripping the available supply at the paper-derived price. As Nicky Shiels, Head of Metals Strategy at MKS PAMP, noted, "*It's a tale of two markets. The price strength in the face of consistent ETF outflows is a clear signal that a major new physical buyer is dominating the market.*" This divergence represents a great physical drain; paper claims are being liquidated in the West, and the underlying bullion is being acquired at a premium and shipped East to satisfy a voracious, price-insensitive demand.

### The Sovereign Backstop: The Force Supercharging the Rally

While retail-level fears are driving the foundation of this rally, the factor supercharging it to record highs is the unprecedented buying from the world's central banks. They are acting on the

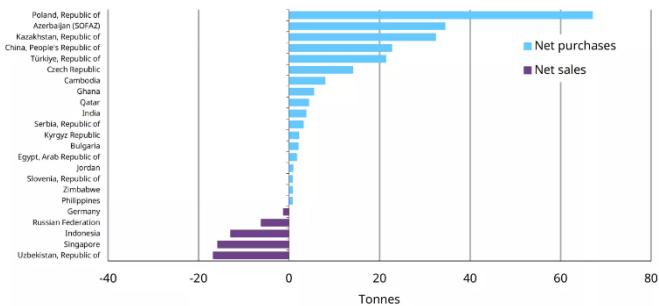
same fears as individuals—geopolitical instability and the long-term health of government-issued currencies—but on a truly monumental scale.

In 2022, central banks added a stunning 1,080 tonnes to their reserves—a 55-year high. They followed this in 2023 by acquiring another massive 1,051 tonnes. In 2024, the pace accelerated again, with a new record of 1,089 tonnes added to sovereign vaults.



In just three years, central banks have hoarded over 3,200 tonnes of physical gold—a quantity that exceeds the entire declared gold reserves of Germany, the world's second-largest holder. This is a complete reversal from the two decades prior, an era defined by Western central banks being net sellers of their gold.

This strategic accumulation from the world's ultimate insiders serves as a massive backstop for the market, absorbing any price dips and providing a clear signal that they are positioning for a future where gold plays a much more significant role.



\*Data to 31 August 2025 where available. SOFAZ represents the gold reserves of the State Oil Fund of Azerbaijan (SOFAZ).  
Source: IMF, respective central banks, World Gold Council

One of the most vocal proponents of gold as a monetary reserve asset has

been the Narodowy Bank Polski (National Bank of Poland, NBP). NBP has been one of the biggest buyers of gold in 2024 and 2025YTD. In September 2025, NBP has increased their target of gold reserves from 20% to 30% of its total foreign exchange holdings. NBP Governor Adam Glapiński has been a strong proponent of gold. In September 2025, he called gold "the only safe investment for state reserves" during a time of global turmoil and the search for a new financial order.

### The Constraint: Why Supply is Structurally Broken

This multi-pronged demand explosion is colliding with a rigid, unresponsive, and fundamentally constrained supply chain. According to the World Gold Council's latest 2025 report, total gold supply is forecast to grow by a mere 2% this year, a rate structurally incapable of satisfying the demand shock from strategic buyers. The breakdown reveals the core of the problem:



Mine production Net producer hedging Recycled gold LBMA Gold Price (US\$/oz)

Data as of 30 June, 2025

Sources: ICE Benchmark Administration, Metals Focus, Refinitiv GFMS, World Gold Council. Disclaimer

**Mine Production:** The primary source of new gold is showing almost no growth. Forecast to reach approximately 3,700 tonnes in 2025, this represents a sluggish 1% year-over-year increase. The concept of "peak gold"—the idea that the easiest

and most concentrated deposits have already been discovered—is becoming a reality. Miners are confronting declining ore grades, rising energy and labor costs, and long project lead times (often 10-15 years), making it nearly impossible to significantly boost output in response to higher prices.

**Recycling:** While high prices have incentivized some selling of old jewellery and electronics, recycled gold is only expected to contribute around 1,240 tonnes to supply this year. This price-sensitive source is finite and cannot be relied upon to fill a strategic, multi-thousand-tonne supply gap created by sovereign buyers.

This inelastic supply acts as a powerful amplifier, ensuring that the pressure from relentless demand translates directly and powerfully into higher prices.

### The New Geopolitical Calculus: A Flight from Risk to Neutrality

The ferocious central bank buying has been catalysed by a stark re-evaluation of global risk. For decades, central banks operated under the assumption that foreign currency reserves were safe and liquid. The 2022 decision to freeze Russia's foreign currency reserves was a watershed moment, demonstrating that any nation's offshore assets carry significant counterparty risk and can be subject to the foreign policy of the host nation.

This single act sent a chilling message to every reserve manager in the world: the only truly sovereign and risk-free asset is one held in your own vault. This realization, combined with anxieties over the unsustainable fiscal trajectory of major reserve-issuing nations, with the US debt-to-GDP ratio soaring past 125% has triggered a global flight to neutrality. The rush to gold is less about rejecting any single currency and more about embracing the one asset that sits outside of any political or credit-based system. As credit strategist Zoltan Pozsar has argued, we are moving toward a new monetary order, "Bretton Woods III... a system backed by outside money," where assets like gold re-emerge as foundational collateral.

### Conclusion: Are gold prices headed higher?

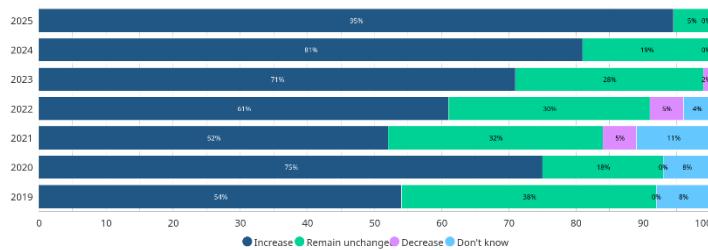
The current gold rally is not a single-issue event. It is a fundamental repricing driven by a rare alignment of fears and strategic interests, from individual investors hedging against inflation to sovereign nations hedging against geopolitical risk. The old models are broken. The physical market is in control. A new, durable floor seems to be in place, supported by a confluence of powerful and persistent drivers.

In recent times, gold price surge has exceeded every single price target forecast by large investment banks like Goldman Sachs, UBS, etc. Many technical analysts, have been calling a trading drop in price but any minor dips in price is getting bought into.

While thinking of future price action, few pointers might be helpful:

- Outcome of WGC 2025 survey of world central banks:

Chart 3: How do you expect global central bank gold reserves to change over the next 12 months?

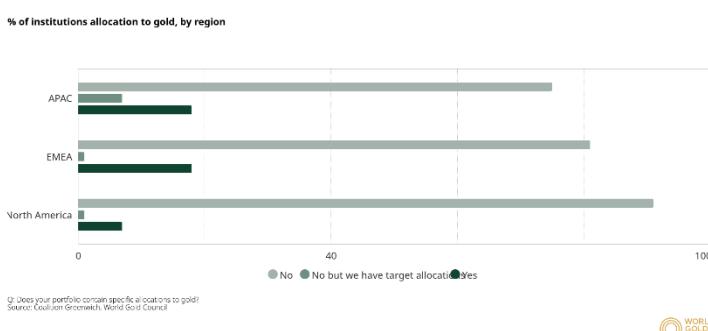


Sources: YearGov, World Gold Council. Disclosure: <https://www.gold.org/terms-and-conditions#proprietary-rights>  
 2025 base: all central banks (73), advanced economy (55), EMER (50)  
 Note: 'Don't know' was removed as an option from the 2022 survey onwards.  
 Note - totals may not sum to 100% due to rounding.

respondents (73%) see moderate or significantly lower US dollar holdings within global reserves over the next five years

- Vast majority of global fund managers, endowments, retirement funds and sovereign funds either don't have any allocation or have very little allocation to gold. Even a minor shift in allocation, can have a significant impact on prices.

Gold allocations are more likely among institutions in EMEA and APAC



1. respondents overwhelmingly (95%) believe that global central bank gold reserves will increase over the next 12 months.
2. a record 43% of respondents believe that their own gold reserves will also increase over the same period
3. none of the respondents anticipate a decline in their gold reserves
4. the majority of

respondents (73%) see moderate or significantly lower US dollar holdings within global reserves over the next five years

Chart on the left, sourced from gold.org is a snapshot of global fund managers and institutions response to the following survey question “Q: Does your portfolio contain specific allocations to gold?”

For investors, the takeaway is clear. In an era of profound uncertainty, gold has re-asserted its timeless role as the ultimate anchor of financial security, a hedge against the known and unknown risks of a fragile system.